

Executive Summary . . .

Quarterly Economic & Revenue Report

Second Quarter 2007

General Fund receipts totaled \$2.224 billion in the second quarter of fiscal year 2007 (FY 07), increasing from FY 06 by 1.6 percent. This represents \$35.0 million more than reported in the same period one year earlier. The Road Fund rose by 7.7 percent in the second quarter, and economic growth, measured by Kentucky personal income, was up by 4.7 percent.

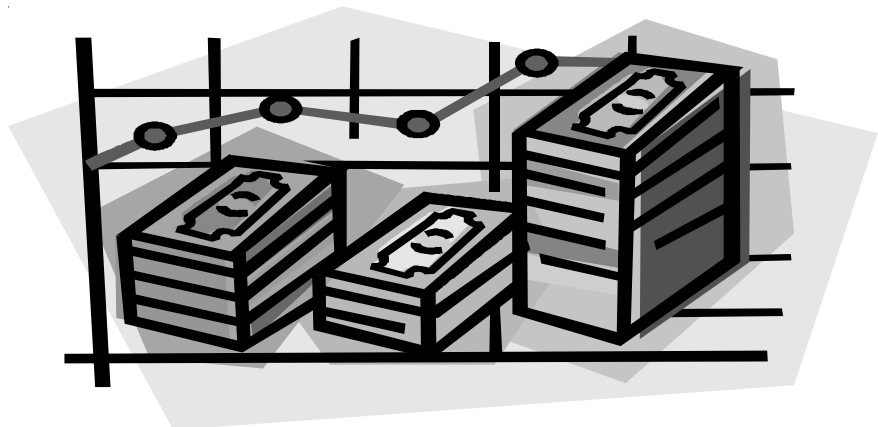
Performance in the General Fund categories for the second quarter was affected not only by economic conditions but also by continuing effects of the tax modernization package passed by the 2005 General Assembly. Sales and use tax revenues were up by 3.2 percent. Individual income tax receipts rose by 1.7 percent, reflecting continuing tax cuts included as part of tax modernization. Corporation income and license taxes rose by 5.6 percent despite the loss of the corporation license tax, which was abolished as of January 1, 2006.

Coal severance taxes rose by 6.6 percent continuing their recent strong performance. Cigarette taxes rose a modest 1.1 percent in the second quarter of FY07. Property taxes were 7.5 percent lower than a year earlier, affected not only by the loss of intangible property taxes and the elimination of telecommunications companies from the public service property tax, but also by timing differences which have delayed receipts into this account.

During the second quarter of FY07, lottery revenues rose by 19.1 percent compared to the second quarter of FY06. All other receipts combined for a decline of 3.1 percent, due mainly to decreases in “miscellaneous” accounts that are composed of abandoned property revenues.

Road Fund receipts were boosted by a recalculation of the statutory rate of motor fuels taxes, which are tied to the wholesale price of motor fuels. For the second quarter, the Road Fund grew by 7.7 percent. Motor fuels taxes rose by 7.0 percent, while motor vehicle usage tax receipts were up by 11.0 percent. Weight distance tax revenues rose by 1.1 percent, and motor vehicle license tax receipts were up by 4.4 percent. Motor vehicle operators license tax receipts rose by 13.3 percent, and investment receipts were up sharply due to higher Road Fund balances.

The U.S. economy as measured by real gross domestic product (GDP) was estimated to have expanded by 2.4 percent in the second quarter of FY07. Personal income also rose by 5.9 percent. Kentucky’s economy as measured by personal income



grew by 4.7 percent over the same period one year earlier. Employment in the state grew by 0.5 percent as 9,900 jobs were added to the payroll during the second quarter.

The interim forecast for the General Fund expects revenue to rise by 3.0 percent over the final two quarters of FY07. Total revenues for the entire fiscal year are forecasted to reach \$8.609 billion, which is identical to the official revised revenue forecast prepared on January 26, 2007, by the Consensus Forecasting Group.

Among the major accounts, the outlook for the next two quarters of FY07 is for sales and use tax revenues to rise by 3.1 percent, and the individual income tax is forecasted to rise by 15.6 percent due to changes enacted in HB 1 of the 2006 Extraordinary Session of the Kentucky General Assembly. The corporation income tax is expected to decline by 24.4 percent also due to HB 1. Coal severance tax revenues are forecasted to drop by 4.2 percent, and the cigarette tax should rise by 2.8 percent.

Property taxes continue to be affected by changes enacted as part of the 2005 tax modernization, and are estimated to grow by 9.8 percent. Dividend payments from

the Kentucky Lottery are expected to sag by 16.8 percent. All other revenues will combine for a growth of 5.6 percent. For the first quarter of FY08, General Fund receipts are forecasted to rise by 2.3 percent.

The interim outlook for the Road Fund anticipates an increase in revenues of 5.2 percent over the final six months of FY07. This is identical to the official revised consensus revenue estimate of January 26, 2007. Motor fuels taxes will grow by 7.0 percent chiefly due to the higher rate on gasoline and other motor fuels. Motor vehicle usage tax collections are expected to rise by 4.7 percent, and motor vehicle license taxes should expand by 3.9 percent. For the first quarter of FY08, the Road Fund should grow by 5.9 percent.

The outlook for the national economy foresees real GDP growth of 2.2 percent over the remainder of FY07, and personal income growth of 5.2 percent. In Kentucky, personal income is expected to rise by 5.0 percent, while employment should grow by 0.6 percent or 11,300 jobs. In the first quarter of FY08, Kentucky personal income should continue to grow by a slightly lower rate of 4.8 percent, and employment growth will slow to 0.4 percent.

Revenue Receipts . . .

Quarterly Economic & Revenue Report

Second Quarter 2007

GENERAL FUND

The second quarter of FY07 experienced slow growth of 1.6 percent following a moderately growing first quarter. Second-quarter growth was boosted by strong receipts in the corporation income tax, coal severance tax, and lottery revenues. Receipts in the second quarter totaled \$2.224 billion compared to the \$2.189 billion received in the second quarter of FY06. Collections in the major revenue categories are shown in summary form in Table 1. Detailed information on these and other accounts is available in the Appendix.

Variations in the quarterly receipts are often affected by differences in the timing of payments into the revenue accounts. While timing differences in the second quarter were not as extensive as in past periods, property tax receipts continue to record fluctuations because of these differences.

Total sales and use tax receipts for the quarter were \$705.2 million, compared to \$683.0 million in the second quarter of FY06. The result is a growth rate of 3.2 percent which is slower than the 6.3 percent growth for the second quarter of last year.

Individual income tax receipts continue to be depressed largely due to aftereffects of the 2005 tax modernization. Receipts of \$760.3 million were 1.7 percent above the \$747.6 million recorded in the second quarter of last year.

Combined corporation income and license tax receipts grew strongly in the second quarter of the fiscal year despite the repeal of the corporation license tax a year ago. (For comparison purposes the combined category is shown, although for the second quarter of FY07 almost all receipts were from the corporation income tax.) Revenues of \$241.8 million were 5.6 percent higher than year-earlier figures of \$228.9 million. The rise in corporation income tax revenue is the mirror effect of the changes that have affected the individual income tax.

Coal severance tax revenue continued to grow in the second quarter, with receipts up by 6.6 percent. Collections of \$56.6 million compare to the FY06 second quarter total of \$53.1 million.

Cigarette tax receipts of \$43.0 million in the second quarter of FY07 exceeded last year's total of \$42.6 million. The figures for both years do not include the tax on other to-

Table 1
Summary General Fund Receipts
Second Quarter, FY07
(mil \$)

	<u>FY07</u>	<u>FY06</u>	<u>Diff</u> <u>(\$)</u>	<u>Diff</u> <u>(%)</u>
Sales and Use	705.2	683.0	22.2	3.2
Individual Income	760.3	747.6	12.7	1.7
Corp. Inc. & License	241.8	228.9	12.9	5.6
Coal Severance	56.6	53.1	3.5	6.6
Cigarette (inc. floor stocks tax)	43.0	42.6	0.4	1.1
Property	251.1	271.5	-20.4	-7.5
Lottery	47.6	40.0	7.6	19.1
Other	<u>118.1</u>	<u>121.9</u>	<u>-3.8</u>	<u>-3.1</u>
TOTAL	2,223.7	2,188.6	35.1	1.6

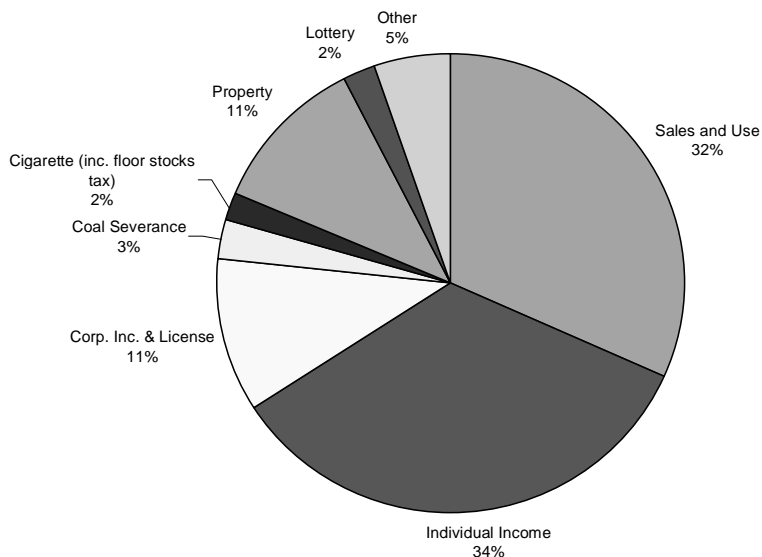
bacco products, which previously had been included in this line for display purposes.

Second-quarter property tax receipts posted revenues that were 7.5 percent below last year's second-quarter total of \$271.5 million. The repeal of intangible property taxes that became effective a year ago contributed to the decline, in addition to differences in the timing of tax payments.

Lottery receipts were \$47.6 million which was 19.1 percent above last year's second quarter total of \$40.0 million.

The "all other" category, which represents the remaining accounts in the General Fund, fell by 3.1 percent in the second quarter. Second-quarter receipts for FY07 were \$118.1 million and compare to \$121.9 million in the same period of FY06.

Figure 1
Second Quarter, FY07
General Fund Receipts



ROAD FUND

The Road Fund reported an increase of 7.7 percent in the second quarter of FY07. Receipts totaled \$284.6 million and compare to \$264.3 million from the second quarter of last year. Summary data are contained in Table 2, and detailed data are shown in the Appendix.

Table 2
Summary Road Fund Receipts
Second Quarter, FY07
(million \$)

	<u>FY07</u>	<u>FY06</u>	<u>Diff</u> <u>(\$)</u>	<u>Diff</u> <u>(%)</u>
Motor Fuels	139.9	130.7	9.2	7.0
Motor Vehicle Usage	90.4	81.4	9.0	11.0
Weight Distance	21.5	21.3	2.1	1.1
Motor Vehicle License	17.3	16.6	0.7	4.4
Motor Vehicle Operators	4.0	3.5	0.5	13.3
Investment Income	3.8	0.6	3.2	515.0
Other	<u>7.9</u>	<u>10.2</u>	<u>-2.5</u>	<u>-24.5</u>
TOTAL	284.6	264.3	20.3	7.7

Motor fuels tax receipts (including motor fuels use & surtax and truck trip permits) grew at a rate of 7.0 percent during the second quarter due to the formula-driven increase in the tax rate tied to the price of gasoline. Receipts were \$139.9 million and compared to \$130.7 million collected during the second quarter of last year.

Motor vehicle usage tax revenues rose sharply in the second quarter, with receipts up by 11.0 percent. Receipts during the second quarter of FY07 totaled \$90.4 million and compared to \$81.4 million collected during the same period last year.

Motor vehicle license tax receipts rose by 4.4 percent in the second quarter of FY07 to \$17.3 million.

Motor vehicle operators license tax receipts were \$4.0 million in the second

quarter of FY07. This represents growth of 13.3 percent over the second quarter of the previous fiscal year.

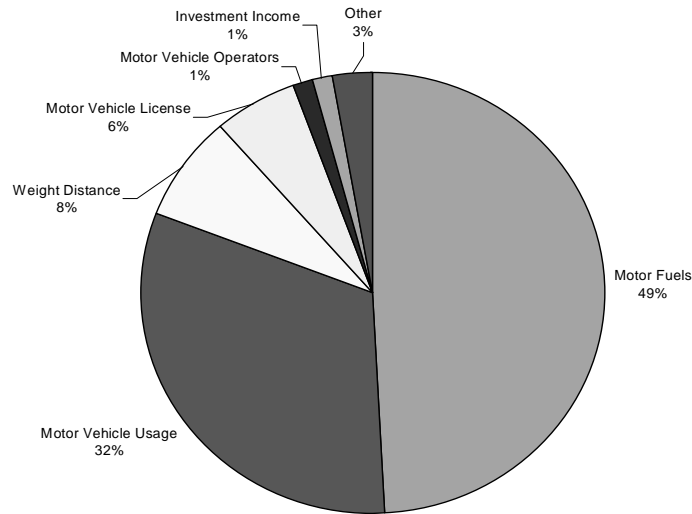
Weight distance tax receipts of \$21.5 million represent a slight 1.1 percent increase over receipts of \$21.3 million during the second quarter of FY06.

Investment receipts of \$3.8 million were up sharply when compared to the second

quarter of last year. The 515.0 percent increase is due mainly to higher Road Fund balances.

The remainder of the accounts in the Road Fund combined for a decrease of 24.5 percent from a year earlier. The removal of remaining tolls on Kentucky parkways as well as a reclassification of certain special fees to another account combined to create the decrease.

Figure 2
SecondQuarter, FY07
Road Fund Receipts



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The Economy . . .

Quarterly Economic & Revenue Report

Second Quarter 2007

NATIONAL ECONOMY

Real gross domestic product (GDP), an inflation-adjusted measure of the total output of goods and services produced in the United States, is estimated to have increased by 2.4 percent in the second quarter. This follows a similar low growth rate of 2.0 percent in the previous quarter. Compared to a year ago, GDP has risen by 3.1 percent. The relative downshift during FY07 is ascribed to a variety of causes including a slowdown in housing and a downturn in the domestic auto industry.

The strength of the domestic economy depends to a large extent on consumer demand. Consumption expenditures account for about two-thirds of real GDP.

In spite of the slowdown in aggregate output, consumption was up a robust 3.6 percent in the second quarter following an increase of 2.7 percent in the first quarter. The consumption of durable goods rose 8.1 percent compared to a 2.5 percent increase a year ago. Much of this growth is related to the continuing expenditure on furniture and related goods. Consumption of nondurable goods was up 3.7 percent. Nondurable

goods include categories like food, clothing, and fuel. These purchases are normally quite stable and not dependent on swings in interest rates or incentives. Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by 2.7 percent in the second quarter. Most of the increase was in the areas of business services, up 5.2 percent, and medical services, up 2.8 percent.

Investment spending proved to be a major drag on the U.S. economy during the second quarter. The investment component of GDP declined by 0.9 percent after posting growth rates of 5.9 percent in the first quarter. The decline was the result of the precipitous drop (down 12.6 percent) in residential construction.

Otherwise, investment activity was strong in areas like equipment and software and nonresidential construction.

The Governor's Office for Economic Analysis monitors industrial production because it is a measure of the output of heavy industries like mining and manufacturing. These industries continue to play a vital role in Kentucky's economy.

Industrial production is a raw measure of output, comprised of only the final products. Total industrial production declined by 0.2 percent during the second quarter after being up 4.0 percent in the first quarter.



Personal income, which is a measure of spending power, was \$11.1 trillion in the second quarter, for an annualized increase of 5.9 percent over the previous year. The extraordinary gain in personal income was from both increased inflation and a surge in dividends, interest, and rent. Real disposable income was up 5.3 percent for the same quarter.

Inflation declined by 2.6 percent as energy prices receded sharply in the second quarter. Even after excluding the relatively volatile energy and food sectors, core inflation was up just 1.6 percent. The unemployment rate stayed at a low 4.5 percent, a little lower than the 4.9 percent a year ago. Nonfarm employment posted a gain of 1.4 percent during the second quarter. Even though energy prices have declined substantially, mining employment has been slow to respond and surged by 8.3 percent even as oil prices dropped. Employment in educational and health services and business services was also strong. Manufacturing employment declined by 0.3 percent largely in response to the drop in the transportation equipment sector.

STATE ECONOMY

The Kentucky economy downshifted during the second quarter. The national view is that the fallout from the housing and auto downturns is too limited to support recession scenarios. The housing downturn is expected to have little direct impact on Kentucky, but the downturn in the auto industry has resulted in a measurable slowdown.

Kentucky's personal income is estimated to be \$126.1 billion in the second quarter of FY07, an increase of 4.7 percent from a year ago. Wages and salaries constitute a little over half of personal income. Income derived from wages and salaries is estimated to have grown by 5.6 percent in FY07:2.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Kentucky gained 9,900 jobs during the second quarter compared to a year ago. This is a decided slump for the

Table 3
National Economic Indicators
Second Quarter, FY07

	FY06:2	FY07:2	Percent Change
Real GDP (billion 2000 \$)	11,163.8	11,510.8	3.1
Personal Income (billion \$)	10,483.7	11,098.2	5.9
Consumer Price Index (percentage change)	3.2	-2.6	-
Industrial Production (percentage change)	4.7	-0.2	-
Civilian Labor Force (millions)	150.1	152.4	1.5
Nonfarm Employment (millions)	134.2	136.0	1.4
Manufacturing Employment (millions)	14.2	14.2	-0.3
Unemployment Rate (percent)	4.9	4.5	-

Sources: Global Insight, Inc., and U.S. Dept. of Commerce, Bureau of Economic Analysis.
Data for FY07:2 are January 2007 estimates.

state economy; a year ago the increase in employment was 26,700.

Of the 1.8 million nonfarm jobs in Kentucky about one-fifth are in the goods-producing sectors: construction, mining, and manufacturing. Employment in the goods-producing sectors was down 5,500 for a decline of 1.5 percent during the second quarter. The loss was entirely in manufacturing employment which constitutes 14 percent of total nonfarm employment. In spite of the easing in energy prices and the relatively low interest rate, Kentucky's economy has continued to lose jobs in manufacturing, particularly in the area of transportation equipment. The downturn is not a worrying trend in the sense that it's not recessionary, but it is still a slowdown in terms of production and employment.

As expected, the housing downturn had little direct impact on Kentucky. Employment in construction was up 1.5 percent from a year ago with a gain of 1,300 jobs. The decline in energy prices caused the overheated coal mining sector to register a gain of just 300 jobs, compared to a gain of 2,200 a year ago.

A little over sixty percent of Kentucky's nonfarm jobs are in the services sector like finance; information; and trade, transportation, and utilities. The broad service-related industries are part of four newly categorized areas or super sectors. These are: business services, educational and health services, leisure and hospitality services, and other services. Overall employment in services was up 1.2 percent with the strongest percentage gain in

Table 4
Selected Kentucky Economic Indicators
Second Quarter, FY07

	FY06:2	FY07:2	Change	Percent Change
Total Personal Income (\$ millions)	120,413	126,094	5,681	4.7%
Wage & Salary Income (\$ millions)	65,476	69,122	3,646	5.6%
Total Nonfarm Employment	1,834.4	1,844.4	9.9	0.5%
Contract Construction	85.7	87.0	1.3	1.5%
Mining	22.3	22.6	0.3	1.5%
Manufacturing	262.6	255.4	-7.1	-2.7%
Trade, Transportation & Utilities	379.8	381.8	2.0	0.5%
Information	29.3	29.0	-0.3	-1.0%
Finance	87.5	88.4	0.8	1.0%
Business Services	174.5	177.3	2.8	1.6%
Educational and Health Services	236.3	241.2	4.9	2.1%
Leisure and Hospitality Services	166.2	170.4	4.2	2.5%
Other Services	77.0	76.2	-0.8	-1.0%
Government	313.2	314.9	1.8	0.6%

Note: Numbers may not add up due to rounding.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, GOEA, January 2007.

leisure and hospitality services (up 2.5 percent). Education and health services account for 13 percent of all employment in Kentucky. This sector added 4,900 jobs in the second quarter. All major service areas

posted gains except for miscellaneous services which shrank by 1.0 percent. This sector includes discretionary spending items like repairs, dry cleaning, and personal services.

Figure 3
Personal Income: KY vs. U.S.
(Index FY00 = 100)

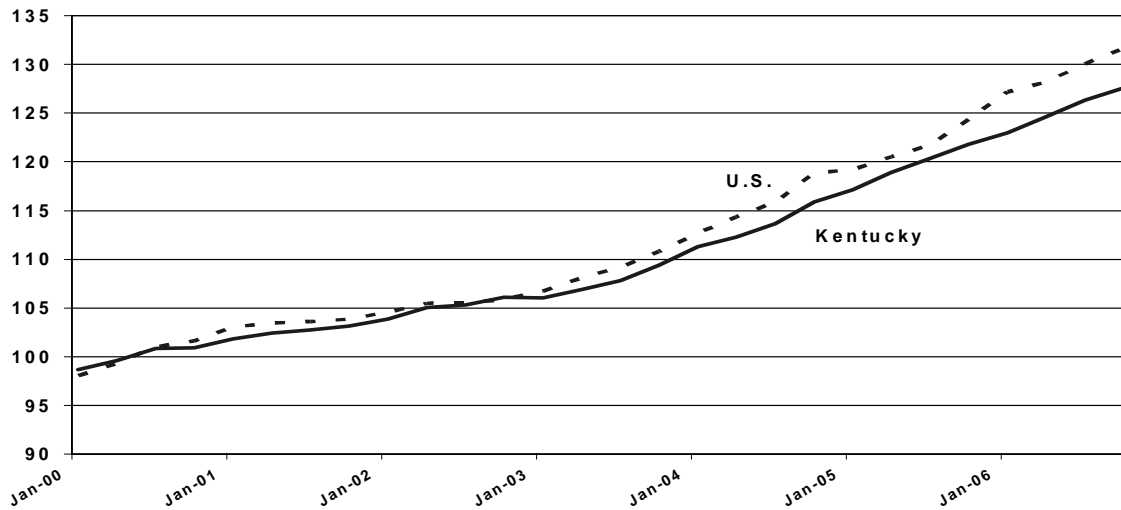
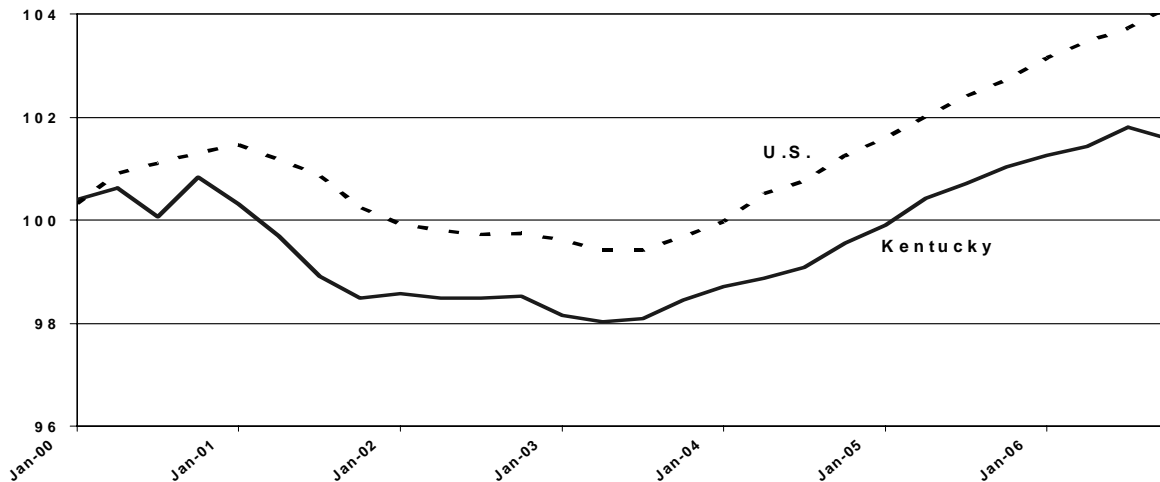


Figure 4
Nonfarm Employment Growth: KY vs. U.S.
(Index FY00 = 100)



Interim Outlook . . .

Quarterly Economic & Revenue Report

Second Quarter 2007

GENERAL FUND

Projected General Fund revenues for the next three quarters are shown in Table 5. General Fund revenues were \$4.259 billion in the first two quarters of FY07, a growth rate of 2.5 percent from the same period a year ago. Revenues moderated due to slower economic growth as the housing industry as well as manufacturing experienced downturns. Growth was strongest in the corporation income tax, coal severance tax, and the lottery, while property taxes and individual income taxes declined.

Anticipated revenues for the last two quarters of FY07 are \$4.350 billion, corresponding to a growth rate of 3.0 percent, slightly above the growth seen in the first half of the fiscal year. Some major accounts, including the corporation income tax, coal severance tax, and the lottery are expected to decline.

The official revenue estimate was revised by the Consensus Forecasting Group on January 26, 2007, and anticipates General Fund revenues of \$8.609 billion for FY07. The interim forecast predicts that revenues will be identical to the official revised estimate.

Sales and use tax receipts for the first two quarters of FY07 totaled \$1.409 billion, representing a growth rate of 3.0 percent from a year ago. The projected rate of growth for the remaining two quarters of FY07 is 3.1 percent. Sales and use tax receipts for the first quarter of FY08 are forecasted to grow 4.0 percent to \$731.8 million.

The interim forecast for the individual income tax calls for a rise of 15.6 percent for the remainder of FY07, amounting to collections of \$1.623 billion in the final six months. The individual income tax fell by 1.1 percent in the first two quarters of the

Table 5
General Fund: Interim Forecast
(millions of dollars)
January 2007

	FY07		FY07		FY07		FY08	
	Quarters 1 & 2		Quarters 3 & 4		Full Year		Quarter 1	
	Actual	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago
Sales & Use	1,409.0	3.0	1,423.6	3.1	2,832.6	3.0	731.8	4.0
Individual Income	1,498.1	-1.1	1,623.7	15.6	3,121.8	7.0	822.9	11.5
Corporation Income & Lic.	523.2	19.4	459.1	-24.4	982.3	-6.0	199.6	-29.0
Coal Severance	111.4	5.6	114.1	-4.2	225.5	0.4	56.5	3.1
Cigarette	84.7	-11.5	84.5	2.8	169.2	-4.9	41.7	0.0
Property	292.2	-10.1	194.9	9.8	487.1	-3.1	54.7	33.1
Lottery	88.6	15.1	94.0	-16.8	182.6	-3.9	43.0	4.9
Other	<u>252.2</u>	<u>9.6</u>	<u>356.4</u>	<u>5.6</u>	<u>608.6</u>	<u>7.2</u>	<u>132.5</u>	<u>-1.3</u>
General Fund	4,259.4	2.5	4,350.3	3.0	8,609.7	2.8	2,082.7	2.3

fiscal year, but a change in reporting requirements for limited-liability pass-through entities is expected to boost this revenue source later in the fiscal year. For the entire fiscal year, individual income tax receipts are projected to rise by 7.0 percent. Collections in the first quarter of FY08 should reach \$822.9 million, or 11.5 percent over collections in the same period of the previous year.

The outlook for corporation income and license taxes is for a decrease of 24.4 percent in the final two quarters of FY07, representing collections of \$459.1 million. These anticipated collections will bring the FY07 total to \$982.3 million, a decline of 6.0 percent from FY06. Revenues in FY07 are affected by changes in both the corporation income and license tax. Corporation income taxes will be lowered by the reduction in the top marginal rate from 7 percent to 6 percent, effective January 1, 2007, and also by the reassignment of taxes paid by pass-through business entities to the individual income tax. The repeal of the corporation license tax will have lingering after-effects on the growth rate in the second half of FY07 since some revenues continued to be received in the same period of the previous fiscal year.

The coal severance tax extended its growth in the first two quarters of FY07, but the forecast is for the growth to stall in the final half of the fiscal year. Receipts in this account are expected to fall by 4.2 percent in the final two quarters, reflecting recent decreases in coal prices. Collections in this account will rise by 3.1 percent in the first quarter of FY08.

Cigarette taxes declined by 11.5 percent in the first two quarters of FY07, as receipts in

the previous fiscal year were boosted by the one-time floor stocks tax. The outlook for the remaining six months of the fiscal year is for \$84.5 million in revenue, with a corresponding growth rate of 2.8 percent. For the first quarter of FY08, receipts are forecasted to be flat when compared to the first quarter of the current fiscal year.

Property tax revenues totaled \$292.2 million in the first two quarters of FY07, representing a drop of 10.1 percent from a year earlier. Receipts in property taxes are sensitive to the timing of payments in the second quarter, but in addition to timing changes, the repeal of the intangible property tax and removal of telecommunications companies from the public service company property tax have also depressed receipts. It is expected that in the second half of the fiscal year, receipts will rebound and post growth of 9.8 percent. Overall for the fiscal year, property taxes are expected to fall by 3.1 percent. Property taxes in the first quarter of FY08 will rise by 33.1 percent.

Lottery revenues grew by 15.1 percent in the first half of FY07. In the next two quarters, lottery revenues are expected to decline by 16.8 percent when compared to a year ago, a time when the state enjoyed dividends from larger Powerball jackpots. For the first quarter of FY08, lottery revenues should grow by 4.9 percent.

The “other” category contains estimates for the remaining revenue accounts in the General Fund. During the last two quarters of FY07 this category should experience growth of 5.6 percent. Receipts in this account will decline by 1.3 percent in the first quarter of FY08, with receipts totaling \$132.5 million.

ROAD FUND

Road Fund revenues are forecasted to grow by 5.2 percent over the final six months of FY07 and 5.9 percent in the first quarter of FY08 as shown in Table 6. This forecast is identical to the official revised revenue estimate as approved by the Consensus Forecasting Group on January 26, 2007.

Motor fuels tax receipts are forecasted to grow by 7.0 percent in the last two quarters of FY07. The increase is principally due to the higher gasoline prices and their effect on the statutory motor fuels tax rate. Growth in this account will continue into FY08 with receipts in the first quarter totaling \$153.8 million.

Motor vehicle usage tax collections are expected to rise by 4.7 percent in the final two quarters of FY07. Receipts in the first two quarters were virtually unchanged from a year earlier. Growth is expected to pick up from a very weak base a year ago. Collections in the first quarter of FY08 will decline by 2.2 percent.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and the staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative and statutory factors. Weight distance tax revenue should rise by 1.4 percent for the remainder of the fiscal year and 2.8 percent in the first quarter of FY08. Motor vehicle license taxes are forecasted to rise by 3.9 percent in the final two quarters of FY07 and grow by 26.8 percent in the first quarter of FY08. Motor vehicle operators' license fees are projected to grow by 5.1 percent in the second half of FY07. Growth in the first quarter of FY08 should be higher by 2.5 percent. Investment income should rise by 64.7 percent in the final two quarters due to higher Road Fund balances, and should climb by 185.7 percent in the first quarter of the upcoming fiscal year. All other revenues should combine for a loss of 15.6 percent due to loss of toll revenue and a reclassification of other special fees to another category. In the first quarter of FY08, these accounts are forecasted to rise by 58.2 percent.

Table 6
Road Fund: Interim Forecast
(millions of dollars)
January 2007

	FY07		FY07		FY07		FY08	
	Quarters 1 & 2		Quarters 3 & 4		Full Year		First Quarter	
	Actual	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago
Motor Fuels	283.5	6.5	280.4	7.0	563.9	6.7	153.8	7.1
Motor Vehicle Usage	199.0	0.0	205.8	4.7	404.8	2.3	106.3	-2.2
Motor Vehicle License	31.6	-4.2	63.3	3.9	94.9	1.1	18.0	26.8
Motor Vehicle Operators	8.0	17.6	8.2	5.1	16.2	11.0	4.1	2.5
Weight Distance	43.3	0.9	43.0	1.4	86.3	1.2	22.4	2.8
Investment	6.9	430.8	8.4	64.7	15.3	139.1	4.0	185.7
Other	15.5	-21.4	18.2	-15.6	33.7	-18.4	12.5	58.2
Road Fund	587.9	3.3	627.2	5.2	1,215.1	4.3	321.1	5.9

NATIONAL and KENTUCKY ECONOMY

The economic outlook presented here is for the three-quarter period from January to September 2007. In terms of fiscal years this period includes the second half of FY07 (quarters 3 and 4) and the first quarter of FY08. The national outlook is based on Global Insight's January 2007 forecast, and the Kentucky outlook is from GOEA's January 2007 baseline forecast. The economic outlook is identical to the one the Consensus Forecasting Group used in arriving at their forecast this month.

National Economy

During the second half of FY07 real GDP is expected to grow by 2.2 percent from a year ago. Growth is expected to continue along the same path, averaging 2.3 percent in the first quarter of FY08. Employment in nonfarm industries will continue to be slow, posting gains of 1.1 percent in the remainder of the fiscal year, and 0.9 percent in FY08:Q1.

The consumption component of GDP continues to be the major factor in sustaining growth. During the last two quarters of FY07 real consumption expenditures are projected to increase by 2.9 percent with durable goods rising by 2.4 percent. The consumption pattern is not expected to change in the first quarter of FY08. Overall consumption growth is expected to be 2.9 percent, and the demand for durable goods is expected to weaken further. The relatively slow growth in the consumption of durable goods is tied to the fortunes of the automobile industry. Real consumption of motor vehicles is forecasted to register a decline of 2.0 percent in the second half of FY07.

The overall investment component is expected to decline by 3.6 percent in the second half of FY07 and by 3.5 percent in the first quarter of FY08. However, looking beyond the headline number the weak investment activity is due entirely to the housing sector. Investment in residential structures is forecasted to decline by 17.5 percent in the final six months of FY07 and by 14.6 percent during the first quarter of FY08. Business-critical areas like investment in equipment and software will, however, continue to increase.

State Economy

The dominance of the goods-producing sector in the state economy is expected to be responsible for slow growth in Kentucky. During the final two quarters of FY07 personal income is estimated to increase by 5.0 compared to a 5.2 percent increase nationally. The slow growth is expected to continue into the first quarter of FY08. Income from wages and salaries is expected to grow even slower due to the weak outlook for the traditionally high-wage manufacturing sector.

During the first half of FY07 total nonfarm employment in Kentucky was up 0.9 percent compared to a year ago. However, a combination of factors is expected to push employment growth down to 0.6 percent in the second half of the year, followed by slightly slower growth in the first quarter of FY08.

Employment in goods-producing industries has declined dramatically in Kentucky in response to productivity gains and the shift of some manufacturing facilities abroad.

During the second half of FY07 employment in goods-producing industries is forecasted to be down 1.6 percent followed by a decline of 1.2 percent in the first quarter of FY08. In spite of strong growth in mining, overall employment in the goods sector is expected to decline because of a sharp drop in manufacturing employment.

Service-providing industries are forecasted to do better during the second half of FY07 with an addition of 11,500 jobs. The overall growth rate during the first quarter of

FY08 is expected to be 0.9 percent. The slowdown in services is a result of the drag from manufacturing. As total wage and salary income growth slows it is expected to dampen consumer demand and hence employment in wholesale and retail trade. However, as the national economy strengthens and there is a further drop in the federal funds rate, the demand for business services is expected to rise. Educational and health services and other services are also expected to see gains in the first quarter of FY08.

Table 7.1
Economic Outlook: Second Half of FY07

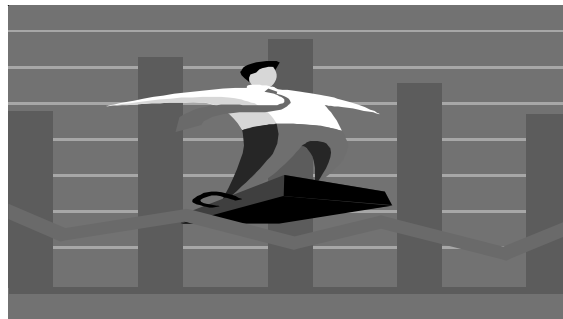
	FY06 Q3 & Q4	FY07 Q3 & Q4	Percent Change
United States			
Real GDP (billion 2000 \$)	11,352.3	11,599.5	2.2%
Personal Income (billion \$)	10,764.4	11,323.4	5.2%
Consumer Price Index (1992-94=100)	200.5	204.1	1.8%
Industrial Production (2002=100)	110.4	112.9	2.3%
Nonfarm Employment (millions)	134.9	136.4	1.1%
Manufacturing Employment (millions)	14.2	14.0	-1.3%
Unemployment Rate (percent)	4.7	4.8	-
Kentucky			
Personal Income (mil\$)	122,384	128,453	5.0%
Wage & Salary Income (mil\$)	67,348	70,053	4.0%
Nonfarm Employment ('000)	1,842.3	1,853.6	0.6%
Goods producing ('000)	370.2	364.2	-1.6%
Service Providing ('000)	1,158.0	1,169.5	1.0%

Sources: Global Insight, Inc. and U.S. Department of Commerce, BEA.
Data for FY07-FY08 are January 2007 estimates.

Table 7.2
Economic Outlook: First Quarter of FY08

	FY07 Q1	FY08 Q1	Percent Change
United States			
Real GDP (billion 2000 \$)	11,443.5	11,707.7	2.3%
Personal Income (billion \$)	10,964.5	11,520.4	5.1%
Consumer Price Index (1992-94=100)	203.2	205.9	1.3%
Industrial Production (2002=100)	112.3	113.6	1.2%
Nonfarm Employment (millions)	135.6	136.8	0.9%
Manufacturing Employment (millions)	14.2	14.0	-1.9%
Unemployment Rate (percent)	4.7	5.0	-
Kentucky			
Personal Income (mil\$)	124,892	130,922	4.8%
Wage & Salary Income (mil\$)	68,365	71,345	4.4%
Nonfarm Employment ('000)	1,848.5	1,856.1	0.4%
Goods producing ('000)	367.0	362.5	-1.2%
Service Providing ('000)	1,163.5	1,173.6	0.9%

Sources: Global Insight, Inc. and U.S. Department of Commerce, BEA.
 Data for FY07-FY08 are January 2007 estimates.



APPENDIX

KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Second Quarter 2006 - 2007	Second Quarter 2005 - 2006	% Change	Year-To-Date 2006 - 2007	Year-To-Date 2005 - 2006	% Change
TOTAL GENERAL FUND	2,223,651,510	2,188,649,584	1.6%	\$4,259,389,619	\$4,154,386,979	2.5%
Tax Receipts	2,142,266,982	2,100,130,056	2.0%	\$4,108,963,542	\$4,007,474,209	2.5%
Sales and Gross Receipts	799,436,590	763,922,994	4.6%	\$1,615,904,287	\$1,556,608,895	3.8%
Beer Consumption	1,499,062	1,784,169	-16.0%	3,290,413	3,285,810	0.1%
Beer Wholesale	10,901,798	12,779,318	-14.7%	24,111,457	23,173,740	4.0%
Cigarette	43,025,645	42,574,113	1.1%	84,726,995	83,500,705	1.5%
Cigarette Floor Stock	468	9,855	-95.3%	468	12,120,794	-100.0%
Distilled Spirits Case Sales	24,822	29,064	-14.6%	48,808	46,696	4.5%
Distilled Spirits Consumption	2,559,757	2,997,824	-14.6%	5,014,278	4,971,734	0.9%
Distilled Spirits Wholesale	6,442,249	6,797,027	-5.2%	12,363,604	11,360,872	8.8%
Insurance Premium	10,333,741	6,560,938	57.5%	39,131,024	38,808,850	0.8%
Pari-Mutuel	1,481,352	1,388,231	6.7%	2,220,635	2,290,361	-3.0%
Race Track Admission	66,435	54,103	22.8%	184,208	182,164	1.1%
Sales and Use	705,161,669	682,985,306	3.2%	1,408,984,762	1,368,469,772	3.0%
Wine Consumption	615,173	432,515	42.2%	1,145,268	823,045	39.2%
Wine Wholesale	2,967,363	3,256,411	-8.9%	5,500,616	5,027,504	9.4%
Telecommunications Tax	12,255,490	0	---	24,896,915	0	---
OTP	2,101,568	2,274,121	-7.6%	4,284,837	2,546,849	68.2%
License and Privilege	72,913,874	83,533,559	-12.7%	\$143,912,014	\$163,321,439	-11.9%
Alc. Bev. License Suspension	156,381	52,250	199.3%	257,381	98,650	160.9%
Coal Severance	56,622,015	53,119,431	6.6%	111,385,164	105,438,591	5.6%
Corporation License	3,008,873	16,204,175	-81.4%	4,696,543	31,129,972	-84.9%
Corporation Organization	13,006	69,010	-81.2%	54,406	137,210	-60.3%
Occupational Licenses	41,053	19,551	110.0%	71,562	45,836	56.1%
Oil Production	1,251,928	1,598,318	-21.7%	3,110,696	3,207,383	-3.0%
Race Track License	115,200	99,725	15.5%	275,700	261,075	5.6%
Bank Franchise Tax	156,733	832,445	-81.2%	(61,094)	642,823	---
Driver License Fees	147,302	135,483	8.7%	308,564	297,297	3.8%
Minerals Severance	4,600,255	4,488,129	2.5%	8,771,374	8,720,716	0.6%
Natural Gas Severance	6,801,127	6,915,041	-1.6%	15,041,718	13,341,886	12.7%
Income	999,073,807	960,361,555	4.0%	\$2,016,553,373	\$1,921,556,681	4.9%
Corporation	238,818,741	212,722,277	12.3%	518,457,673	407,090,290	27.4%
Individual	760,255,066	747,639,278	1.7%	1,498,095,700	1,514,466,391	-1.1%
Property	\$251,054,831	\$271,514,936	-7.5%	\$292,176,080	\$324,954,612	-10.1%
Bank Deposits	562	7,041	-92.0%	562	7,041	-92.0%
Building & Loan Association	1,599	(120,207)	---	425,552	48,322	780.7%
Distilled Spirits	499,619	328,958	51.9%	506,754	403,142	25.7%
General - Intangible	41,195	23,497,902	-99.8%	49,242	23,503,667	-99.8%
General - Real	148,722,854	144,760,741	2.7%	149,007,816	145,105,396	2.7%
General - Tangible	81,100,935	68,975,272	17.6%	104,071,490	91,377,857	13.9%
Omitted & Delinquent	9,358,910	9,777,798	-4.3%	21,056,879	17,815,728	18.2%
Public Service	11,326,339	24,283,537	-53.4%	17,054,611	46,689,446	-63.5%
Other	2,819	3,896	-27.6%	3,174	4,013	-20.9%
Inheritance	\$11,165,909	\$12,277,411	-9.1%	\$23,403,116	\$23,493,613	-0.4%
Miscellaneous	\$8,621,970	\$8,519,600	1.2%	\$17,014,671	\$17,538,969	-3.0%
Legal Process	5,698,604	5,905,772	-3.5%	12,484,687	12,722,687	-1.9%
T. V. A. In Lieu Payments	2,923,366	2,459,752	18.8%	4,525,485	4,640,898	-2.5%
Other	0	154,076	-100.0%	4,499	175,384	-97.4%
Nontax Receipts	\$80,941,779	\$85,366,455	-5.2%	\$142,833,017	\$141,877,598	0.7%
Departmental Fees	6,209,689	5,876,326	5.7%	12,867,387	11,412,320	12.7%
PSC Assessment Fee	22,580	410,898	-94.5%	12,281,406	8,778,161	39.9%
Fines & Forfeitures	7,284,872	6,432,582	13.2%	13,946,821	13,040,588	6.9%
Interest on Investments	330,567	307,507	7.5%	691,854	542,658	27.5%
Lottery	47,625,113	40,000,000	19.1%	88,625,113	77,000,000	15.1%
Sale of NOx Credits	112,000	0	---	199,500	136,000	46.7%
Miscellaneous	19,356,958	32,339,142	-40.1%	14,220,937	30,967,871	-54.1%
Redeposit of State Funds	\$442,749	\$3,153,073	-86.0%	\$7,593,061	\$5,035,172	50.8%

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Second Quarter 2006 - 2007	Second Quarter 2005 - 2006	% Change	Year-To-Date 2006 - 2007	Year-To-Date 2005 - 2006	% Change
TOTAL ROAD FUND	\$284,553,276	\$264,302,885	7.7%	\$587,890,919	\$568,986,990	3.3%
Tax Receipts-	\$274,921,383	\$257,561,040	6.7%	\$569,100,169	\$554,360,863	2.7%
Sales and Gross Receipts	\$230,318,491	\$212,131,404	8.6%	\$482,567,444	\$465,323,827	3.7%
Motor Fuels Taxes	133,949,388	125,226,309	7.0%	270,353,042	\$255,481,383	5.8%
Motor Fuels Use & Surtax	5,922,550	5,370,921	10.3%	13,037,296	\$10,606,339	22.9%
Truck Trip Permits (fuel)	73,580	94,840	-22.4%	153,220	\$187,280	-18.2%
Motor Vehicle Usage	90,372,974	81,439,335	11.0%	199,023,886	\$199,048,824	0.0%
License and Privilege	\$44,602,892	\$45,429,635	-1.8%	\$86,532,725	\$89,037,037	-2.8%
Motor Vehicles	17,342,963	16,616,126	4.4%	31,575,239	\$33,006,734	-4.3%
Motor Vehicle Operators	3,980,108	3,514,066	13.3%	8,024,545	\$6,771,397	18.5%
Weight Distance	21,488,185	21,255,333	1.1%	43,283,809	\$42,883,598	0.9%
Truck Decal Fees	26,738	31,451	-15.0%	70,051	\$75,670	-7.4%
Other Special Fees	1,764,898	4,012,660	-56.0%	3,579,082	\$6,299,638	-43.2%
Nontax Receipts	\$9,814,149	\$6,657,172	47.4%	\$18,611,528	\$13,683,067	36.0%
Departmental Fees	4,542,559	3,987,017	13.9%	8,196,243	\$8,221,369	-0.3%
In Lieu of Traffic Fines	253,849	282,671	-10.2%	564,398	\$615,951	-8.4%
Highway Tolls	1,103,966	1,583,037	-30.3%	2,687,722	\$3,172,045	-15.3%
Investment Income	3,762,180	611,756	515.0%	6,920,967	\$1,335,668	418.2%
Miscellaneous	151,595	192,691	-21.3%	242,198	\$338,034	-28.4%
Redeposit of State Funds	(\$182,257)	\$84,673	---	\$179,222	\$943,060	-81.0%